E4300-14

JUNE 1985

BUILDER

THE NATIONAL ASSOCIATION OF HOME BUILDERS ☐ A HANLEY-WOOD, INC., PUBLICATION

0 11084699 31HM JUN87 SAMPL
JEAN LONG X45
CONGRESSIONAL INFO SERV DIH
4520 E-W HIGHWAY STE 800
BETHESDA MD 20814

VOLUME 8, NUMBER 6 ■ JUNE 1985

BUILDER

COLUMNS
5 About Building
18 Money
22 Washington
26 Marketing
30 Strategy

DEPARTMENTS
11 Outlook
106 Sketchbook
110 Shoptalk
115 NAHB Report
122 Products
134 Product News
143 Ad Index
144 Mail

NEWS
42 Spring forecast leaves chill in the air
43 Tax proposals: tough pills to swallow
46 Couple courts success: rentals their racket
46 Project overcomes overbuilt market
48 Lender blessing could mean co-op rebirth
50 Business is ducky for Arizona developer
50 REITs stage comeback among investors
54 Funding cutoff: a cure for the common code
58 Buyers move up date for mortgage burning
58 Housing scores big in AIA awards poll
62 Pension funds still cool on mortgages
62 Energy group formed for exchange of ideas
66 GAO report keeps Fannie Mae under gun

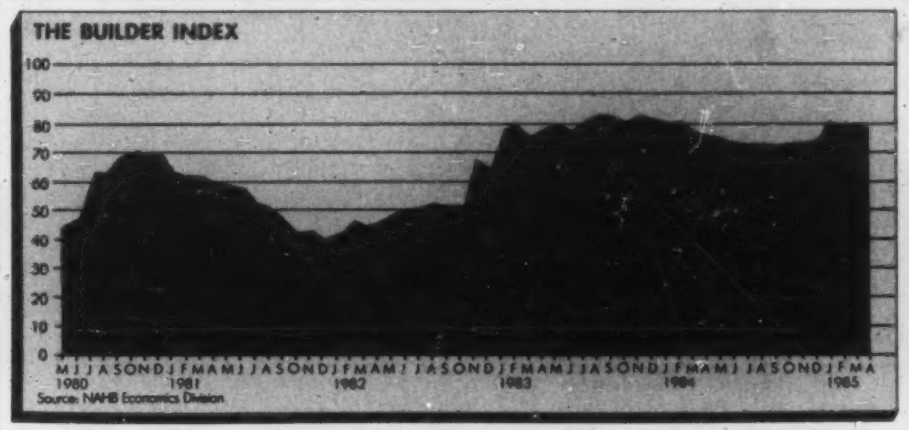
70—RETIREMENT HOUSING: A MATURING MARKET
The baby boom generation has been getting all the attention, but the elderly market now is too big to ignore. Every day, in fact, another 5,000 Americans turn 65, and that is creating a whole set of new opportunities for builders.
(Cover: Washington Abbey, Eugene, Ore. Photo: Courtesy Ross & Sullivan Communications)

92—MASTER OF THE BATH
His name is Herbert Kohler. And his proper title is chairman and chief executive officer of the Kohler Company, a company he says is the leader—in more ways than one—in the highly competitive bathroom fixture business.

100—PROJECT OF THE MONTH
California builder Bill Davidson had a beautiful view site for his Pointe Del Mar project but two problems as well: environmentalists and some not-so-nifty houses next-door. He finally reached a tough compromise with the environmentalists, then built big, stunning homes that fully captured his buyers' attention.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



The BUILDER Index inched down a bit in April to 78.5 as expectations by builders declined slightly.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The base measurement period (100) is housing conditions in July 1978. The BUILDER Index is updated monthly.

Split Personality

Michael Sumichrast
NAHB chief economist, Washington, D.C.

In the short run—the next three months or so—housing starts will continue to be very strong. The annual rate will range from 1.8 to 2 million units, with single-family starts reaching 1 to 1.1 million. That's an excellent performance.

But when summer ends, housing starts will decline to an annual rate of between 1.5 to 1.6 million. That is unless interest rates decline sharply.

During the first quarter of this year the starts rate averaged 1.79 million units, down only about 8 percent from a very strong first quarter in 1984, when starts averaged 2 million units.

There are several reasons for this year's relatively strong performance. One is the strength of the multifamily sector; the other is the surprising strength of the Northeast region.

Why is the multifamily sector so strong? The fundamental reason is that rents have increased over the last five years, after a decade of very little growth. In addition, because so few rental units were built during the 1970s, there was a gap between supply and demand. Other factors are the possibility of major tax changes and the possible disappearance of tax-exempt revenue bonds, both of which are leading builders to building while they still can.

Many of the multifamily projects are designed for the elderly. As a result the multifamily sector showed major improvement in states such as California, Florida, Arizona and Tennessee. In these four states alone an additional 79,000 multifamily units were built last year compared to 1983.

On the other hand, in two of the oil states, Texas and Oklahoma, multifamily starts declined by almost the same number of units last year. This was due to the erosion of the employment base and overbuilding.

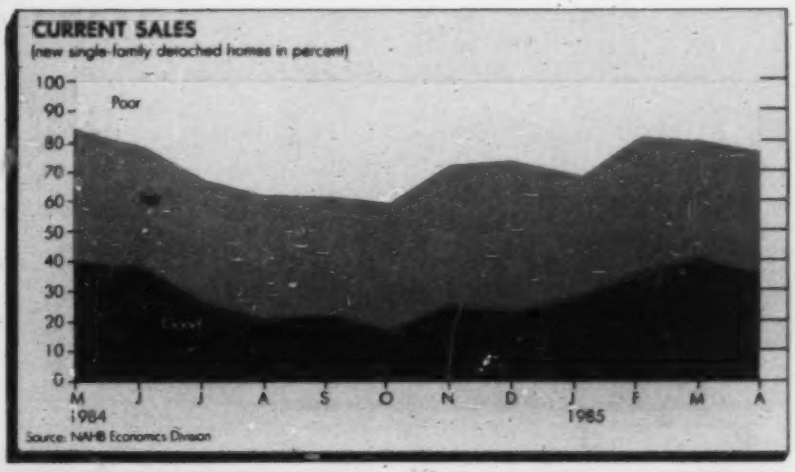
First-quarter results attest to the strength of markets in the Northeast. Starts this year are 20.5 percent ahead of the same period last year. The West region is doing about as well as it was a

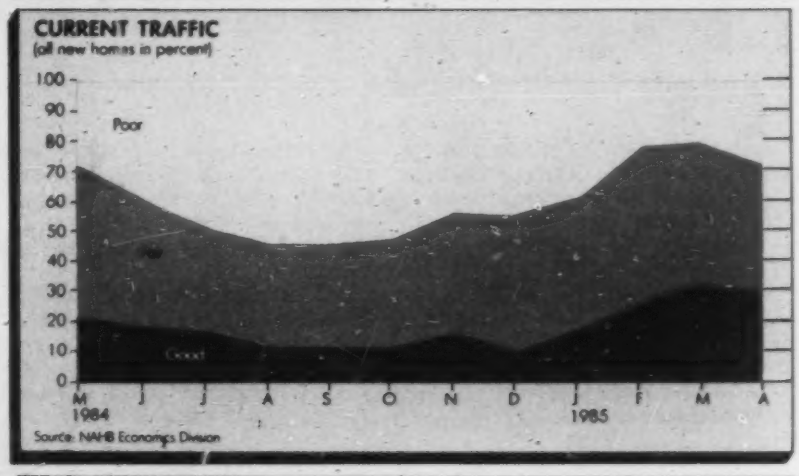
CONTINUED ON PAGE 13

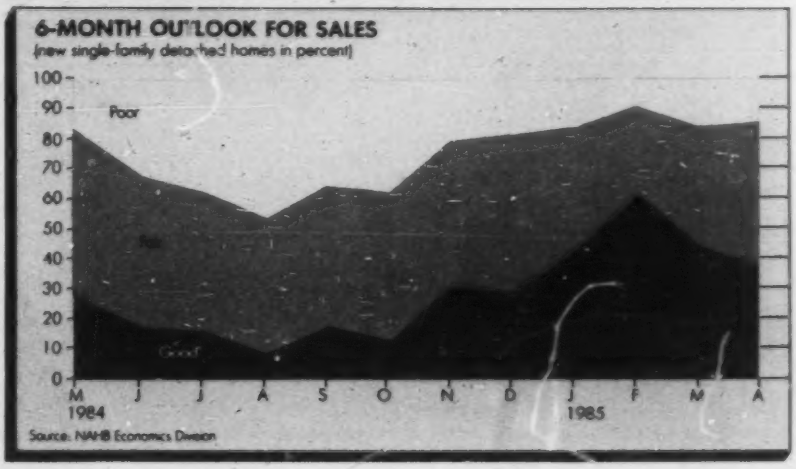
ANNUAL QUARTERLY RATES OF CHANGE FOR U.S. HOUSING STARTS
(in thousands of units)

	1984 First quarter	1984 Fourth quarter	1985 First quarter	Percent change first quarter 1984 to first quarter 1985	Percent change fourth quarter 1984 to first quarter 1985
Single-family	1,257	1,045	1,111	−11.6%	6.3%
Multifamily	690	553	681	−1.3	23.1
Total	1,947	1,598	1,792	−8.0	12.1
2 to 4 units	131	114	104	−20.6	−8.8
5+ units	559	439	577	3.2	31.4
Northeast	220	234	265	20.5	13.2
Midwest	291	226	249	−14.4	10.2
South	958	754	803	−16.2	6.5
West	478	384	475	−0.6	23.7

Source: U.S. Census Bureau; compilation by NAHB Economics Division







LEVELING OFF

At this point the housing market is hard to describe. On the national level it might be described as leveling off. But on a region-by-region basis it is very uneven—almost unbelievably strong in the Northeast, more or less holding its own in the Midwest but much weaker than a year ago in the South and West.

Builders' comments in the April BUILDER poll reflect the regional differences. A New York builder said the market there was experiencing the "biggest building boom in its history."

On the other hand, a Texas builder described the market as "very bad" and an Oklahoma builder said his market was "depressed."

On the national level all signs—traffic, current home sales and six-month expectations (charts left)—point to a mild weakening in housing activity. None is off dramatically from the month before, but all are down, with current single-family homes sales down the most.

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

SWING TO SINGLES
Over the past two years, a growing proportion of both repeat and first-time buyers have purchased single-family detached houses, reports the Chicago Title Insurance Co. Last year, 89.9% chose single-family homes compared with 87.8% in 1983 and 76.6% in 1982. Working wives helped that happen. The proportion of married home buyers with two incomes reached 74.5% last year, up from 71.8% in 1983. Between 1977 and 1982, two-income families averaged 54.8% of all married couples buying homes. The biggest shift last year was among repeat home buyers: The proportion of married couples with two incomes jumped to 68.5%, up from 59.6% in 1983. Among married first-time buyers last year, 85.8% were two-income families, down slightly from 87.4%.

MARCH CAME IN LIKE A LION...
The value of new construction contracts jumped 12% in March to an annual rate of $227.7 billion, reports the F.W. Dodge Division of McGraw-Hill Information Systems Co. Residential building led the way with a 19% surge to an annualized value of $112.5 billion in March. It was the first time in nearly a year that the rate of total residential building exceeded $100 billion. The value of nonresidential building contracts in March rose 4%. As a result of March's strong contracting rate, the first quarter total was 1% higher than in the first quarter of 1984.

...AND WENT OUT THE SAME WAY
Existing single-family home sales hit an annual rate of 3.05 million units in March—the highest level in nearly 4½ years, the National Association of Realtors (NAR) reports. The March resale rate was 6% higher than the month before and 3% higher than in March 1984. NAR president David Roberts credited recent mortgage rate declines for the sales increase. But despite stepped-up sales, inventory also was up. At the end of March, 2.79 million existing single-family homes were on the market—an 11.0-month supply, up from a 10.5-month supply the month before.

STEPPING STONES
Manufactured homes are no longer considered merely stepping stones to site-built homes, according to a recent nationwide survey of 10,000 manufactured homeowners conducted by Foremost Insurance Co., Grand Rapids, Mich. Some 39% of the people who bought new manufactured homes in the past two years had previously lived in a mobile home. And 49% of new buyers say they plan to live in their new manufactured home indefinitely. That's up from 44% in 1982. What's more, more than half (58%) of buyers last year placed the units on private property rather than in mobile home parks compared with 46% in 1982.

HOME SALES DROP IN NORTHEAST
Sales of new single-family homes during March rose in every region except the Northeast. Sales increased 21% in the West, 9% in the South and 6.8% in the Midwest but fell 8% in the Northeast. At the end of March, there were 352,000 new houses for sale, or a 6.4-month supply, down from a 6.8-month supply.

WISEMAN RESIGNS FROM HUD
Shirley McVay Wiseman has resigned as general deputy assistant secretary of the Department of Housing and Urban Development (HUD) to run for vice president/secretary of NAHB. Wiseman also intends to return to home building in Lexington, Ky., where she was vice president of Wiseman Homes and a partner in Wiseman Real Estate. She characterized her two-year stint at HUD as "exciting and very rewarding and I'm ready to leave."

CONTINUED FROM PAGE 11

year ago, with about a 27 percent share of total housing starts compared to 25 percent one year ago.

The news from the Midwest and the South isn't as good. The Midwest was down by 14 percent in the first quarter from a year ago, and although starts in March were quite strong, one month's activity does not suggest a reversal. With starts down 16 percent, the South is the big loser, and the biggest losers were the southern oil states: Texas down 85,171 in 1984 from 1983; Oklahoma down 18,073; and Louisiana down 6,982 units.

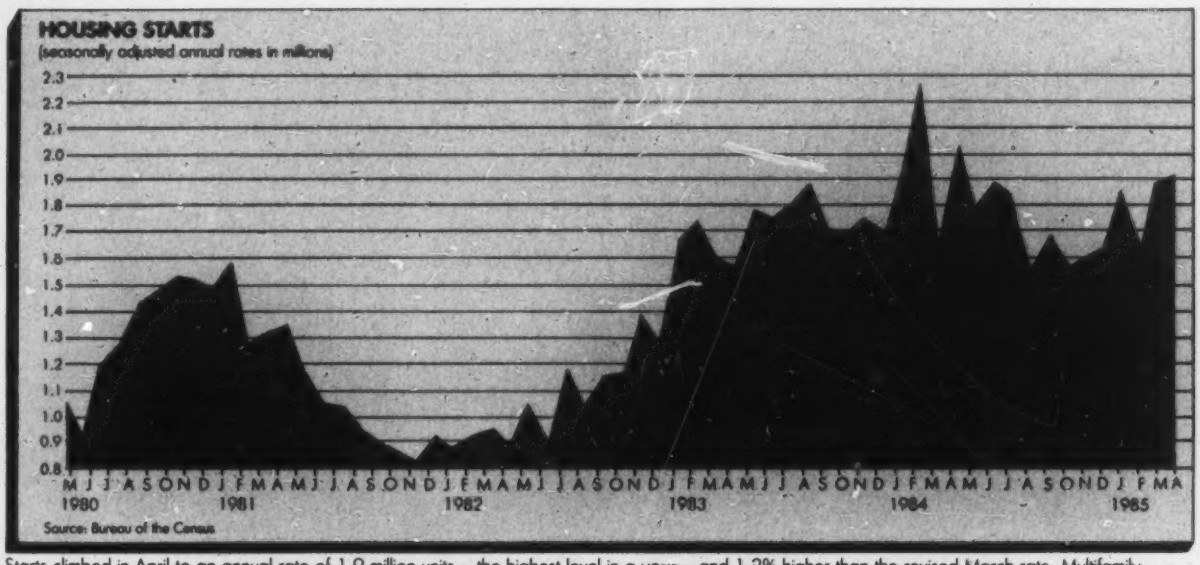
Permit data indicates that starts will continue to be strong through the summer months. But, because the market in the South, which now accounts for about one-half of all housing activity, is so soft, a slowdown is almost inevitable by fall. Already many southern cities are overbuilt, and permits are way down from a year ago. Without a strong South, we simply cannot have a strong national housing market. And although there are signs of some improvement in employment in such cities as Houston, the housing turnaround will not come this year in any of the oil states.

Thankfully, a very strong nonresidential sector is offsetting at least in part the residential slowdown. Office construction, in fact, continues to boom in spite of massive overbuilding in many areas. Commercial construction also is doing well and industrial construction is improving. There are many nonres opportunities and many more in the rehab market, which continues to flourish just about everywhere.

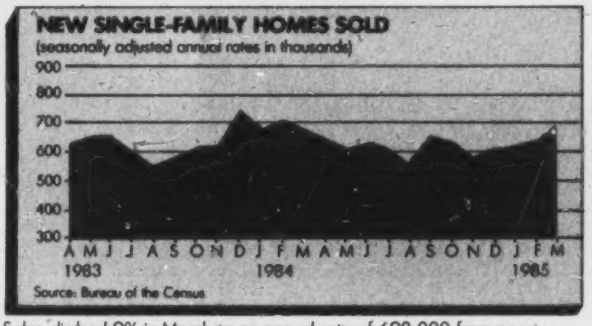
All in all, this will be a good year for housing, but the market will have a split personality. It will start out strong and run only about 8 to 10 percent behind last year. Then it will weaken considerably with starts dropping to the 1.4 to 1.6 million unit range.

The year should end with 1.64 million new housing starts, and that's with interest rates still very high. So the third year of the housing recovery is really not bad at all.

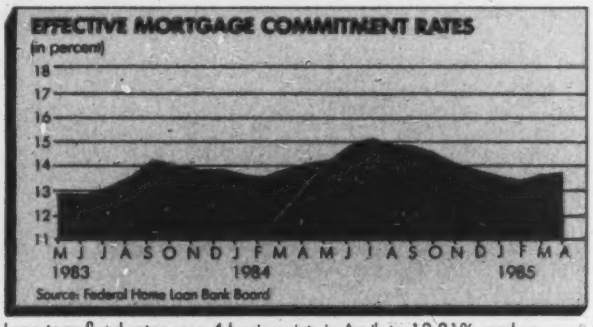
For those who are uncertain, however, about the second half and next year, it may be a good idea to look for opportunities in the nonresidential market, including rehabilitation and renovation. It's a big market with potential.



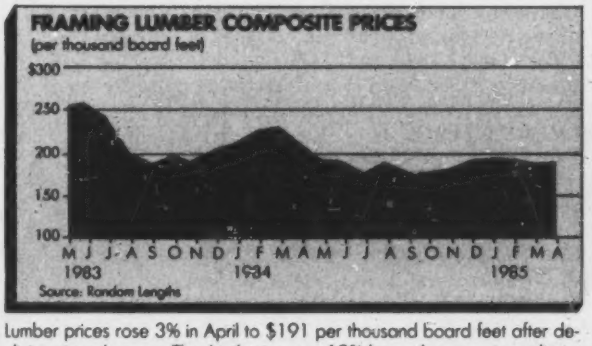
Starts climbed in April to an annual rate of 1.9 million units—the highest level in a year—and 1.2% higher than the revised March rate. Multifamily starts accounted for the increase, rising nearly 6% to an annual rate of 754,000. Single-family starts slipped 1% to 1.16 million.



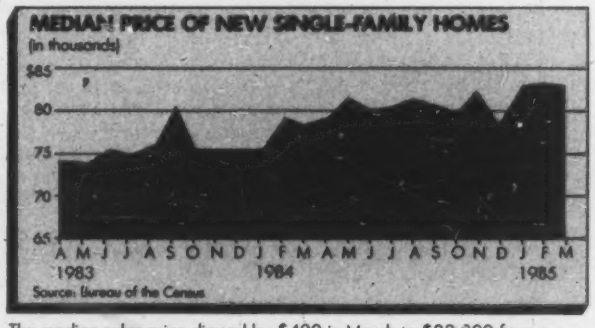
Sales climbed 9% in March to an annual rate of 698,000 from an upwardly revised February rate. However, first quarter sales were down 4% from the same period in 1984.



Long-term fixed rates rose 4 basis points in April, to 13.81%, and uncapped adjustable rates moved up 9 basis points to 11.77%. Fixed rates were down 31 basis points from a year earlier.



Lumber prices rose 3% in April to $191 per thousand board feet after declining since January. The April price was 12% lower than a year earlier.



The median sales price dipped by $400 in March to $83,000 from an upwardly revised February price. The March price was $4,600, or 6%, higher than a year earlier.

Carroll Brock from Los Angeles, who oversees M.J. Brock & Son's building operations in Northern California, reported that increasing land-use fees were beginning to slow growth and builders were having to pay as much as $20,000 in fees in some areas. "Some cities and counties even want us to build schools for them," he noted. Multifamily production was up, he added, because tax-exempt bond financing is available.

In answer to a question from moderator Michael Sumichrast, NAHB's chief economist, Brock said that the buy-down situation was horrible: "We had too much inventory this spring and sold houses with 10½ percent fixed-rate mortgages."

Overall, Brock reported, California consumers seem optimistic. "California is getting defense budget dollars. People are coming out to look at homes. It's just tough for them to qualify for mortgages."

Baltimore builder Jim Rubinstein, whose company builds about 250 units a year, reported increased competition from national builders who've discovered the stable Baltimore market. "That's had a tremendous impact on the price of land. Also, it affects our profit margins: We have to compete with builders who work for less than we do and have different goals.

From the Washington area, builder William Berry reported strong, best-year-ever move-up and first-time home buyer markets. Price of land, he noted, wasn't as much a problem as availability. "There are land shortages and it's difficult to find density-zoned ground."

Penelope Lemov, business editor

ECONOMY

TAX PROPOSALS: TOUGH PILLS TO SWALLOW

Washington's smart money is betting that a new tax act will pass this year. And real estate industry experts agree that any of the three proposals being considered, though each safeguards the deductibility of mortgage interest on primary homes, would be a bitter pill to swallow. Each greatly reduces the attractiveness of real estate tax shelters to investors and, consequently, the number of investor dollars that might flow into real estate.

DEPRECIATION ALLOWANCES UNDER ACRS VS. RCRS

Year	ACRS (inflation irrelevant)	RCRS (3% inflation)	RCRS (6% inflation)
1	$ 50,000	$ 30,000	$ 30,000
2	60,000	29,973	30,846
3	60,000	29,946	31,716
4	60,000	29,919	32,610
5	60,000	29,892	33,530
6	60,000	29,865	34,475
7	60,000	29,838	35,448
8	60,000	29,812	36,447
9	60,000	29,785	37,475
10	60,000	29,758	38,532
11	50,000	29,731	39,618
12	50,000	29,704	40,736
13	50,000	29,678	41,884
14	50,000	29,651	43,006
15	50,000	29,624	44,280
16	50,000	29,598	45,529
17	50,000	29,571	46,813
18	50,000	29,544	48,133
Total	$990,000	$535,889	$691,138

The above calculations assume the purchase of a $1-million building.
Source: Seidman & Seidman/BDO

The proposals under consideration include the Democrat's Bradley-Gephardt, the GOP's Kemp-Kasten and the administration's two Treasury Department versions. The first one, dubbed Treasury I, was written under the aegis of then-Treasury secretary Donald Regan, and the second, Treasury II, is Regan's proposal as revised by current secretary James Baker.

The major sticking points in the Treasury I proposal—factors that show few signs of fading in the Treasury II proposal due at the end of May—are restrictions on the number of limited partners in a syndication; the indexing for inflation of depreciation, capital gains and interest deductions; and the repeal of rapid depreciation.

A recent analysis of the Treasury I proposal by Seidman & Seidman/BDO, a New York accounting firm, and Fine & Ambrogne, a Boston law firm, claims that while real estate investments will be affected adversely, the results won't be fatal.

According to Glenn Davis, the Seidman & Seidman manager who authored the study, "These changes mean investor attention will have to focus on economic incentives such as cash flow, equity build-up and capital appreciation." The so-called 'deep shelters' will be the most adversely affected, he says, but "much of the damage could be undone by modifying the form in which real estate investments are structured, and by putting greater emphasis on their economic, as opposed to tax, benefits."

Seidman's analysis of key provisions of Treasury I also includes a variety of ways of surviving some of the proposed new rules and details the parameters of bad news on others.

■ Limited partnership changes. Limited partnerships, the way most real estate interests are held, have two advantages: an investor's liability is limited to the amount of capital he invests in the partnership; and, second, unlike a corporation, limited partnerships are not taxed at the entity level (that is, the partnership itself is not taxed.) As a result, there is no "double tax" on income, and tax losses pass directly to the partners. Under the Treasury I proposal, limited partnerships of more than 35 people would be taxed as corporations—income would be taxed at the partnership level and again when it is distributed to the individual partners. Losses would offset partnership income but could not offset individual partners' personal income.

The Treasury proposal also would reduce the amount of interest expense that could be deducted by these real estate investors—currently, interest payable on a loan, including a real estate mortgage, is fully deductible. Investment restrictions would apply to limited partners. "As a result," says Davis, "only people with significant amounts of investment income could take full advantage of mortgage interest deductions."

In short, limited partnerships no longer would be a viable entity under the new tax proposal, but Davis points out that the most attractive alternative would be a general partnership. The general partnership does not provide investors with limited liability but, says Davis, "investors could purchase insurance against most risks. They then would enjoy the

same tax benefits as limited partners do under present law."

■ Depreciation and capital gains. Here, the changes will hurt but they may not be devastating. In the depreciation arena, real estate investments currently are subject to the Accelerated Cost Recovery System (ACRS), which allows real estate to be written off over 18 years. The Treasury proposal would eliminate ACRS and substitute a Real Cost Recovery System (RCRS), which would write off an asset over 63 years. Under RCRS the annual depreciation allowance would be 3 percent of the adjusted basis of a building. "On a $1 million commercial building," the Seidman report acknowledges, "the depreciation would be $30,000, compared to $50,000 under ACRS."

In the capital gains area, basis would be indexed for inflation. According to the analysis, "At an inflation rate as low as 3 percent, the tax on a sale of property would be less under Treasury than under present law. This change, of course, is tempered by calculating depreciation under RCRS." Davis explains that the gain realized upon sale would be the selling price minus the basis of the property adjusted for inflation. "Generally speaking, the longer the holding period and the higher the inflation rate, the more likely an investor's tax liability would be decreased."

Capital gains also would lose its preferential treatment under the Treasury proposal. Gains for sales or exchanges of real estate would be taxed at ordinary income rates, with the highest for individuals being 35 percent, compared to the current 20 percent capital gain rate.

■ Interest indexing. Under current law, a taxpayer can deduct all interest payable on debt. Under the proposed Treasury bill, the amount of deductible interest would be adjusted for inflation. According to Davis, the amount of interest an investor could deduct would be reduced by factoring out the inflation element. He offers no quick fixes here.

■ Investment tax credits. The Seidman analysis offers no ray of hope for renovators of historical structures who now enjoy a 25-percent credit on rehab spending. The Treasury proposal would abolish investment tax credits, including those for property rehabilitation.

Penelope Lemov

REMODELING

COUPLE COURTS SUCCESS: RENTALS THEIR RACKET

Richard and Mary Kaye Carlson were down Love-30. The seven-year-old indoor-outdoor Colorado Springs tennis club they built and owned just wasn't scoring with players.

So Richard, an architect, went to the net with a radical idea—turning the indoor courts into 37 apartments. Three outdoor courts and a club lounge were left intact.

The result was a smash. Since opening last summer, 33 of the one and two-bedroom units have been snapped up at rents of $385 to $535. Tenants range in age from 22 to 79; most, though, are in their mid-20s.

"The amusing thing about it is, the tenants are not all tennis buffs," says Mary Kaye, who's managing the complex. "Most of them come because the building's layout gives them extra security."

Photo: Richard Carlson

Richard and Mary Kaye Carlson turned an unsuccessful indoor tennis court into an apartment complex that's scoring points with tenants.

There are only two entrances to the 15,300-square-foot building, which was renovated in 1983-84. Doors to units open to a partially covered central atrium. "We decided not to put in skylights, so we only partially glassed over ceiling openings in the atrium," Richard explains. "That gives the area natural ventilation. And the courtyard stays between 40 and 70 degrees."

The units are narrow and deep—14 by 50 feet. Large windows at either end, however, keep spaces light and airy. The two-bedroom units are on two levels, which, says Richard, keeps them from feeling cramped. It cost $33 a square foot for the renovation.

Called The Courts, the reborn complex takes up one acre of a three-and-one-half acre site. Having rallied from near defeat, the Carlsons are planning to build 70 more apartments on the remaining land. "We have an unusual concept and have had good publicity," says Mary Kaye. "So far, we've had no problem getting people to come out. They're curious."

June Fletcher, features editor

MULTIFAMILY

PROJECT OVERCOMES OVERBUILT MARKET

It was the summer of 1983 and, in Houston, apartment vacancies were just beginning to edge up. Unfortunately, Campbell and Company, a Houston multifamily builder, had passed the point of no return on a 348-unit apartment project, the Falls. Ground was due to be broken in September.

"We didn't know we were going to build in the teeth of a glut," recalls Dennis Beverly, project manager for the Falls. "The market was on a downslide but we were too committed to the land and predevelopment expenses not to go forward."

Partnership's multifamily development department, co-ops can be the best option for converting rental projects. Rather than assuming a condo conversion, builders should consider the co-op route, he says.

Co-op conversions have two advantages. A previous blanket mortgage can remain in effect (assuming no due on sale), so the benefits of attractive loan terms for the original rental development can be extended.

Plus, there are tax advantages to the developer in converting to co-op, because profits will be categorized as capital gains on the sale to the co-op corporation (rather than ordinary business income from selling off individual condo units). Also, the seller may be able to avoid tax recapture of prior accelerated depreciation benefits if the current tax basis is merely passed on to the co-op corporation.

Members of the purchasing co-op can keep the blanket mortgage intact and finance the additional portion of the purchase price with individual share loans. At the Washington conference, lenders said they expect most co-op conversion or development to utilize some combination of blanket and share financing for maximum flexibility and risk sharing.

In the congregate housing market for the elderly, co-ops are starting to compete with condos and expensive life care facilities. Targeted to residents over age 75, and providing comprehensive meal, social and health services along with housing, co-op congregate projects offer residents the chance to set their own rules.

"The critical difference between condo and co-op congregate housing is that co-ops have more control over who moves in," Slepin says, because co-ops funnel prospective residents through the board of directors for approval.

National Co-op Bank vice president C. Peter Behringer says he expects co-ops to increase their share of all new housing starts from the current one-half of one percent to 2 percent within the next five years. He reports new sources of financing opening up for blanket project loans.

With possibilities for using pension fund capital, increasing access of share loans to tax-exempt mortgage revenue bond programs and trying lender equity participation deals, "co-ops are coming out of the closet," he says.

Martha Davis, a Washington, D.C.-based free-lance writer specializing in housing issues

MARKETING

BUSINESS IS DUCKY FOR ARIZONA DEVELOPER

There are plenty of hunters for the snowbirds who decide to nest near Sun City, Ariz., but the prime selling season is short—January through April. To bag its share, Universal Development Corporation (UDC) knew it needed decoys. It found them: two high school students dressed as ducks.

Bespectacled, fat and feathered, the ducks cavort, dance and direct traffic off a major intersection into Westbrook Village, a three-year-old planned adult community that eventually will include 3,000 units on 640 acres. Once there, prospects are lured with everything from condos to single-family dwellings, ranging from 909 to 2,162 square feet and costing between $59,400 and $104,400. So far, 400 buyers have bitten the bait.

The ducks debuted during the January grand opening of the project's first condominium. During one weekend, they directed 2,800 visitors to the site, and had photos taken with 600 of them. "We don't have a good window to a major artery," says Frank Taylor, Westbrook's sales manager. "But since the ducks came, business has taken off." He estimates that ducks have boosted sales by about 5 percent.

"And so far, having them at the intersection hasn't ruffled any feathers within the community," he adds. "The cops just wave and honk."

June Fletcher

FINANCE

REITs STAGE COMEBACK AMONG INVESTORS

Remember REITs, real estate investment trusts? Some can't forget them, especially those who invested in them in 1974-75 when several went bust.

But REITs (unincorporated trusts or associations that invest in property rather than stocks or bonds) are roaring back. In their new, 1980s incarnation—30 percent of the 125 REITs are less than five years old—they're not only more attractive to investors but are filling in some of the gap left by the slowdown of syndication dollars into real estate.

Investor interest was rekindled by the Tax Reform Act of 1984 (some financial wags dub it the REIT Relief Act), which curbed some real estate tax shelter write-offs. Investors dumped $1.76 billion in REITs in 1984—a 90-percent increase over 1983's $925 million. In the first quarter of this year, when further tax reforms seemed imminent, $1.6 billion poured into REITs, a 1200-percent increase over the first quarter of 1984 and only 9 percent less than all of 1984.

Investors appear to be gravitating away from tax-sheltered real estate investments to income-producing

CONTINUED ON PAGE 54

CONTINUED FROM PAGE 50

investments, which is where today's REITs are situated. But it's been a long about-face for REITs. In the 1970s, REIT investments were usually highly leveraged mortgage trusts that specialized in construction loans on ill-fated projects or made long-term mortgage loans using borrowed, short-term money. When short-term interest rates spiked new highs, REITs were in deep trouble.

Those days are gone, says Tom Dunbar of the National Association of Real Estate Investment Trusts (NAREIT). "Where REITs had $10 billion in short-term loans in 1975, they have only $750 million in 1985," he says.

The new model REITs emphasize equity investments by buying a diversified portfolio of properties (existing or under construction) or they emphasize participatory mortgages that permit them to share in rents and property appreciation. Today's REITs are divided 60 percent in equity investments and 40 percent in mortgages. "That's the exact opposite of 1975," Dunbar adds, noting that the debt to equity ratios have gone from 4:1 to a sounder 1:1. In terms of yield, equity REITs yield 8.5 percent dividends; mortgage REITs, 11 percent dividends.

Unlike syndications, REITs don't offer tax shelter advantages—depreciation of property is not passed on to investors; dividends are generally taxable. But REITs offer investors other advantages. Almost any investor can come up with enough cash to buy into a REIT; some REITs are priced at $7 a share. (Syndication investments often mean $10,000 to $50,000 minimum investment.) REITs also are liquid since shares trade on the stock exchange. (Syndication investments can tie up money for up to 10 years.)

REIT investment managers are looking around for apartment houses, office buildings and shopping centers to invest in. REITs often become joint venture or limited partners in the acquisition of property (both existing and developing) or they make mortgage loans available to builders of new construction. Some REITs specialize in only one type of investment. First Union, the largest equity REIT with $640 million in assets, invests in suburban shopping malls and downtown office buildings. Others specialize even further. Americana Hotel and Realty invests in Americana hotel properties.

MONIES INVESTED IN REITS
(in thousands)

Year	Investment
1971	$2,540,359
1972	1,417,808
1973	1,320,458
1974	122,984
1975	138,911
1976	118,134
1977	81,247
1978	226,806
1979	246,248
1980	141,926
1981	348,442
1982	402,121
1983	925,886
1984	1,763,198
1985 (1st quarter)	1,605,969

Source: Stephen Roulac & Company; National Association of Securities Dealers

"REITs can provide builders of income-producing properties with relatively inexpensive capital for construction and development projects," notes Stan Ross, co-managing partner of Kenneth Laventhol, an accounting and consulting firm based in Los Angeles. Ross adds that this comes at a time when the cost of construction financing from traditional sources is comparatively high and when some lenders, such as savings and loan associations, are experiencing liquidity problems and are curtailing construction loans. "With the REIT, instead of having to pay 13 to 13.5 percent to borrow, you pay 8 to 10 percent," Ross points out.

There is, of course, no free lunch. In exchange for the lower current cost of capital, the builder gives away equity.

The same investment companies that have been putting syndication deals together for the past few years are also hopping aboard the REIT return express. Consolidated Capital Equities Corporation, Emeryville, Calif., for instance, was one of the 10 biggest money raisers for limited partnerships last year. This year its REITs have drawn twice the investor dollars that partnerships have. Where 60 percent of its invested capital was in limited partnerships 10 years ago, today 60 percent is in REITs, reports Bob DeMonte, executive vice president for public programs.

DeMonte suggests that individual builders should look into forming their own REITs so they can be in control of their own sources of capital. "With mortgage REITs yielding around 11 percent, the builder would have a direct relationship with investors willing to accept 11-percent yields," he points out.

Although Consolidated's REITs generally raise $200 million to $400 million apiece, DeMonte says a REIT would make sense at as low as $5 million to $10 million.

One builder who's gone the REIT route is Melvin Simon & Associates (MSA), a shopping center developer in Indianapolis. Simon started its own REIT, MSA Realty Corporation, last year, raising $20 million in equity and $72 million in debentures carrying 9.25 percent. MSA is participating with Simon & Associates in joint venture acquisition and expansion of existing shopping centers.

Penelope Lemov

ENERGY

FUNDING CUTOFF: A CURE FOR THE COMMON CODE

Question: Where do you find the most stringent energy codes in the world?

Answer: Sweden and South Dakota. South Dakota?

The South Dakota Housing Development Authority (SDHDA) recently adopted a tough energy code for new and existing homes it finances with tax-exempt bonds. Homes financed after April 1, 1985 must meet the code.

CONTINUED ON PAGE 58

- The Atheneum, New Harmony, Ind. Architect: Richard Meier & Partners, New York.
- Corporate Headquarters, AB Volvo, Gothenburg, Sweden. Architect: Mitchell/Guirgola Architects, New York.
- Charles Shipman Payson Building (Portland Museum of Art), Portland, Me. Architect: I. M. Pei & Partners, Henry N. Cobb, Design Partner, New York.
- Weyerhaeuser Technology Center, Tacoma, Wash. Architect: Skidmore, Owings & Merrill, San Francisco.

FINANCE

PENSION FUNDS STILL COOL ON MORTGAGES

Private pension funds have increased their mortgage-related investments but the increase hasn't kept pace with the rise in the funds' assets.

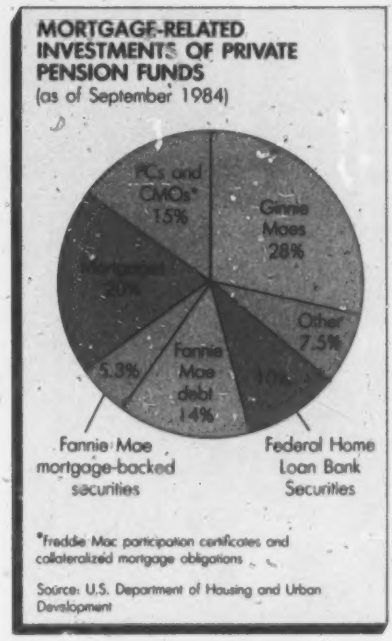
Total assets of private corporate and union pension funds with assets of $5 million or more climbed by $61 billion to $601 billion between September 1983 and September 1984, according to a recently released survey by the Department of Housing and Urban Development. That's an 11-percent increase.

But total mortgage-related investments by those pension funds grew by only $900 million, or 3 percent, to $31.9 billion during the same period. As a result, the proportion of private pension fund assets invested in mortgages slipped to 5.3 percent from 5.7 percent.

Mortgage-related investments "are still a relatively small percentage of their assets," says David Ledford, who follows pension funds for NAHB.

The survey also found that of the $31.9 billion invested in mortgage-related investments, $25.4 billion was in mortgage-related securities and $6.5 billion was invested directly in mortgages.

Ginnie Mae securities were the most popular type of mortgage securities held by private pension funds, amounting to $8.9 billion by September 1984. Nevertheless, Ginnie Mae holdings were down 8 percent from a year earlier.


MORTGAGE-RELATED INVESTMENTS OF PRIVATE PENSION FUNDS
(as of September 1984)
PCs and CMOs* 15%
Ginnie Maes 28%
Other 7.5%
Fannie Mae debt 14%
5.3%
Fannie Mae mortgage-backed securities
Federal Home Loan Bank Securities
*Freddie Mac participation certificates and collateralized mortgage obligations
Source: U.S. Department of Housing and Urban Development

Another survey by the American Council of Life Insurance found that mortgage-related investments by life insurance companies grew by 12.7 percent to $187 billion during the 12-month period ending in September 1984.

Most of those investments—82 percent—still were in direct mortgage purchases. However, investment in mortgage-related securities (mostly Ginnie Maes) jumped by 55 percent while direct mortgage holdings rose only 6 percent.

Carol Anderson

ENERGY

ENERGY GROUP FORMED FOR EXCHANGE OF IDEAS

Energy-conscious builders now have someplace to go for unbiased information about what works and what doesn't.

A group of builders recently formed the Energy Efficient Building Association (EEBA) to foster the development and dissemination of information on the design and construction of energy-efficient buildings.

Besides builders, the 60 charter members include blower door and heat exchanger manufacturers, state energy office personnel, researchers, home weatherizers, designers, educators and journalists. The Rochester, Minn.-based group also has a few members from Sweden and Canada—trend-setting countries in energy-efficient housing.

To make a major contribution to the energy efficiency of new homes in the U.S., EEBA's major challenge may be to enlist the interest and membership of large production builders, especially from major markets in the Sunbelt. Most builder members hail from northern states, and few built more than 25 homes last year.

President of the group is Brian Curran, a modular-home builder who guarantees that each of his homes will have annual heating bills under $100.

"Energy-efficient housing is not a passing fad," says Curran, president of Buffalo Homes, Butte, Mont. "It's a matter of putting together the best recipes of today's various energy technologies.

"Depending on where you live, there are many ways to provide consumers with cost-effective and comfortable solutions to their housing requirements. We're here to act as a clearinghouse for all systems, not as an endorsement agency for any particular one."

Curran says EEBA intends to avoid the polarized "camp mentality" that seems to form around such specialized building technologies as passive solar, super-insulation, earth sheltering and airtight dry wall.

Through a computer hotline or bulletin board, EEBA members will have access to other builders' reports on their direct experience with a cross section of energy-efficient building systems. The expectation is that builders will be able to get quick answers to both general and specific questions: which design ideas work

CONTINUED ON PAGE 66

LESLIE ENSOR STOCKMAN, DESIGN EDITOR and **JUNE FLETCHER**, FEATURES EDITOR

A MATURING

Photo: The Image Bank/Don Klumpp

MARKET

With 5,000 Americans turning 65 each day, the market for retirement housing is rapidly coming of age. Opportunities exist, and they're certain to increase.

Move over, baby boomers. Make way for your elders, who will constitute housing's hottest market for the rest of the century. The market looks good for two reasons. The number of Americans 65 and older is growing at an unprecedented rate, and their houses no longer suit their lifestyles. Consider these facts:

- Every day another 5,000 Americans turn 65, joining the fastest-growing segment of the population, the elderly.
- The 65-plus population grew by an estimated 6 percent between 1980 and 1983, compared to a 3-percent increase in the under-65 age group.
- There are almost 30 million elderly Americans; or put another way, about 1 of every 8 Americans is 65 or older.

The growth in this sector will continue, too, so that by 2030 one in every five Americans will be over 65. And not only are the old increasing in numbers, they're getting older: At 2.2 million, the 85 and older age group was 20 times larger in 1980 than in 1900 and it's predicted to grow to 3.5 million by 1990.

Although poverty still plagues many elderly, this segment as a whole is surprisingly affluent. In 1983, 39 percent of elderly households had incomes of at least $20,000. The elderly also are equity-rich, with 72 percent of elderly couples owning a home and 84 percent of that group owning them free and clear.

In many cases, though, the homes they own no longer are suitable. They're big and expensive to maintain. (Nearly half of the houses owned by older people were built before 1940.) Often they impose physical and social barriers to a full and comfortable life.

Many elderly live in deteriorated urban neighborhoods that are losing services, shops and long-time residents. The elderly who remain feel isolated and become easy targets for crime. Elderly living in the suburbs fare somewhat better, but in many towns they're tying up affordable housing that would be more suitable for young families.

Even if their houses are well-located, older houses are often too much house for older owners. They tend to be expensive to heat, require many repairs and lots of yard work.

Yet many hang on to them, not simply out of sentiment but because there are neither affordable nor appropriate alternatives. "There isn't enough housing designed specifically for older people and what housing there is often isn't in the right location," says Leo Baldwin, coordinator of the American Association of Retired Persons's special projects. As a result, most elderly prefer to stay in their homes rather than move to a new town or even a new neighborhood.

All these facts and figures have stirred up the home building industry. Many predict housing for the elderly will boom in the late 1980s and 1990s the way housing for singles boomed in the 1970s and early 80s. Before too much ground is broken, however, it's time to look closely at this market. Is it as deep as it looks? Where are the opportunities for home builders and what are the pitfalls? And, most importantly, can home builders deliver the housing this market needs?

Illustration: Bergmon Hobo Design

Mention retirement housing and most people think of the Sunbelt. Contrary to popular belief, however, most elderly don't yearn for a condo on the Gulf or a cottage in the desert. They almost always stick close to home, where family, friends and a lifetime of associations are. Only 4 percent of the elderly population moved to a different state in 1979.

In fact, of the seven states that account for half the country's elderly population, four—New York, Illinois, Ohio and Pennsylvania—are in the North. The others are Florida, California and Texas. "Builders thinking of entering this market should look for opportunities in their own backyards," says market consultant William Smolkin of the New Orleans-based firm, Hebert/Smolkin Associates.

The seniors market may be ubiquitous, but as Smolkin's analysis of the U.S. Census data shows (see charts on page 74), it's not necessarily deep. This is a pretty stationary population. While 23 percent of the general population changed address in 1980, only 9 percent of households 65 to 74 years old moved and 5 percent of those between 70 and 84 moved. Eliminate those whose incomes fall below $18,500 and that's an annual market of less than 170,000 elderly buyers and renters spread across the entire country.

The market doesn't tie up into one neat bundle, either. It's comprised of at least three segments, which break down as follows:

- ages 65 to 74, the young retirees;
- ages 75 to 85, still independent but slowing down; and
- ages 85-plus, the frail old.

Each segment has distinct housing needs. "Market research is critical in housing for the elderly because as the market gets older its housing needs become less and less like housing for the general population," says John Hebert of Hebert/Smolkin. Building for this market often means offering more than shelter; projects can resemble the hotel business or the health-care business more than the housing business.

Housing for retirees falls into three categories, with plenty of variations within each type. They are:

- age-segregated communities for active retirees;
- congregate housing; and
- life care communities.

Age-segregated communities are the most familiar territory for many home builders. These projects limit buyers to people older than 45 or 50, though in fact the actual age of buyers usually is over 60. The lower entry age gives the project a youthful image that is in sync with the way active retirees see themselves.

Active is the operating word here. Golf, tennis, jogging, cycling and swimming are some of the many activities that the newly retired throw themselves into, and many communities offer lavish facilities that cater to these enthusiasms.

Sun City near Phoenix is perhaps the most well-known and certainly the oldest and largest community for active

retirees in the country. It has 11 golf courses, 7 swimming pools and 17 tennis courts for its 46,000 residents. And there's plenty more, from boccie courts to concert halls in the 8,900-acre project.

That represents a staggering investment unlikely to be repeated in the future, even by Sun City's developer, Del E. Webb Development Co. Although its second community, Sun City West, is on a scale comparable to Sun City, expensive land and money will force the company to hold future developments to about 15,000 residents, according to president Paul Tatz. "But we'll continue to put in the infrastructure and the amenities up front," he adds. "You can't sell homes in this market without them."

That's true even on a smaller scale. J. S. Hovnanian & Sons, Mount Laurel, N.J., isn't putting a golf course in its 717-unit Holiday Village, a community for those 52 and older. But it does have a ballroom in the clubhouse. Hovnanian's research showed that its buyers rated dancing their number-one recreational activity.

At Holiday Village, which draws from the Philadelphia metropolitan area, buyers are like the vast majority of the nation's retirees. They don't want to leave their roots. "Our buyers won't go more than an hour from where they lived," says Stephen J. Hovnanian, vice president of marketing and operations. "And they prefer to be within a half hour of family and old friends."

Sun City, on the other hand, draws mobile retirees, but it still must make the move as trouble (and trauma-) free as possible. Prospective buyers can spend a week or two vacationing at Sun City West or they can rent an apartment there for a year before buying a house. Both programs are designed to let people "test drive" the community before committing themselves to it.

The typical product for active retirees is a downsize, single-story, single-family house or duplex unit. Downsizing is a relative term, however. At Sun City, the average house has grown from 1,000 square feet when the project opened 25 years ago to about 2,000 square feet today. Tatz says the increase reflects the general increase in house size and an increase in the number of bathrooms people expect. Sun City also attracts affluent buyers, whose average net worth is more than $200,000.

Pricing is tied to the value of the buyer's previous home, so a builder should know exactly where his buyers are likely to come from. "Builders should know the value of the homes their prospective buyers are selling and understand that a major portion of their equity, but not all of it, will be reinvested in housing. This market wants something left over to invest for future income," advises Stephen J. Hovnanian.

Projects such as Holiday Village and Sun City are marketed to and attract younger retirees. But the fastest-growing sector of the elderly population is older and needs a different kind of housing. Most people between 75 and 85 lead independent lives but need help with meals or housekeeping as they slow down. This can be a time of loneliness for people, too, as spouses and old friends die.

Congregate housing can be their lifeline, providing

PROJECT TYPES

Active retirement communities
These communities span a range of projects from entire new towns to modest subdivisions, but in all of them people must be of a certain age, usually about 50, before they can move in. Most offer a rich range of recreational opportunities, either as part of the project, such as a golf course community, or by virtue of its location, in a resort town, for instance. These projects attract active retirees (65 to 74 years old) and pre-retirees (55 to 64 years old) and don't provide health care facilities. But as these projects age, so do their residents, creating a demand for health care and other support services.

Congregate living
This is an updated version of the boarding house. Residents have their own apartments, complete with at least one bedroom and a kitchen. But one or more meals a day are served in a common dining room. This relieves older people from daily cooking chores and offers residents a chance for social interaction. Weekly maid service, transportation and organized activities usually are included in the rent, but most congregate projects don't provide health care services. Congregate housing allows ambulatory persons to live independently of their families. Residents usually are between 75 and 85 years old.

Life care communities
Usually campus-type projects, life care communities provide for nearly every contingency in an older person's life. Housing usually ranges from independent, detached cottages to skilled nursing facilities, with several levels of assisted living in between. Most of these projects require residents to pay a substantial entry fee as well as monthly rent in exchange for housing and care for the rest of their lives. But some life care developers now are abandoning entry fees in favor of a pay-as-you-go approach to health and support services. Life care residents usually are 85 years or older.

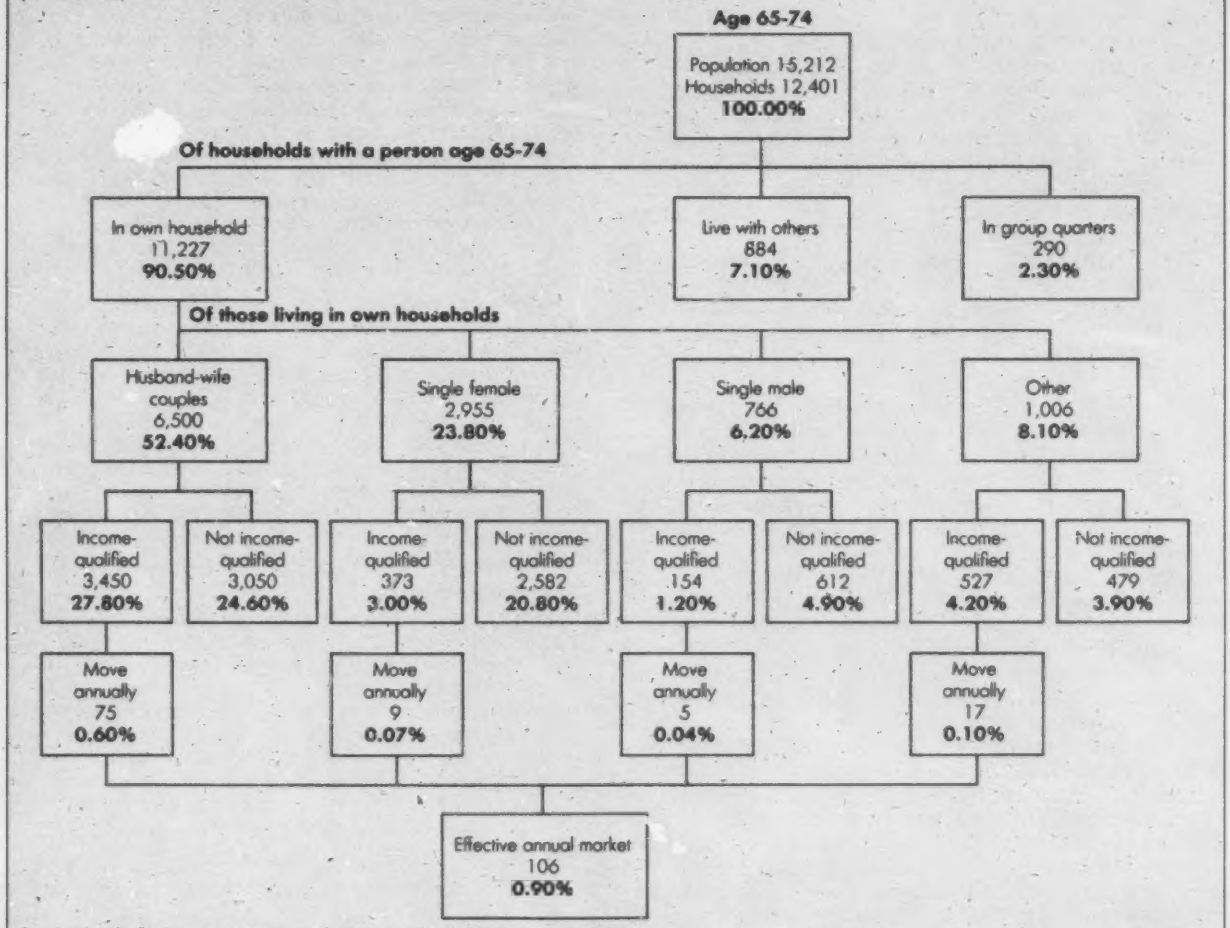
MARKET BREAKDOWN

The elderly market is not monolithic. Instead, it has three major segments, each with specific characteristics—defined by age and general fitness—and needs in shelter. Here's how most experts on elderly housing break down the market:

- The go-go's. These are the "young" retirees, 65 to 74 years old. They are active, independent and want to enjoy their newly acquired leisure.
- The slow-go's. People between 75 and 85 years old who are starting to slow down but aren't ready for the rocking chair yet. They may, for example, enjoy a putting green instead of a full-fledged golf course. They may want a little help with meals and housekeeping. This is the prime market for congregate housing.
- The no-go's. Yes, there are exceptions, but after 85 most folks have slowed down. They need help beyond meals and housekeeping. Services from personal care with dressing, bathing and other daily functions to skilled nursing care often are required.

INCOME-QUALIFIED MOVER MARKET, AGE 65 TO 74

(in thousands)



Source: Hebert/Smolkin Associates Inc., marketing consultants, analyzing data from U.S. Census of 1980

physical support and a built-in social life. Usually rental projects, such facilities offer a small but complete apartment and one or more meals a day served in a common dining room. Usually maid service, transportation and organized social activities are included in the rent.

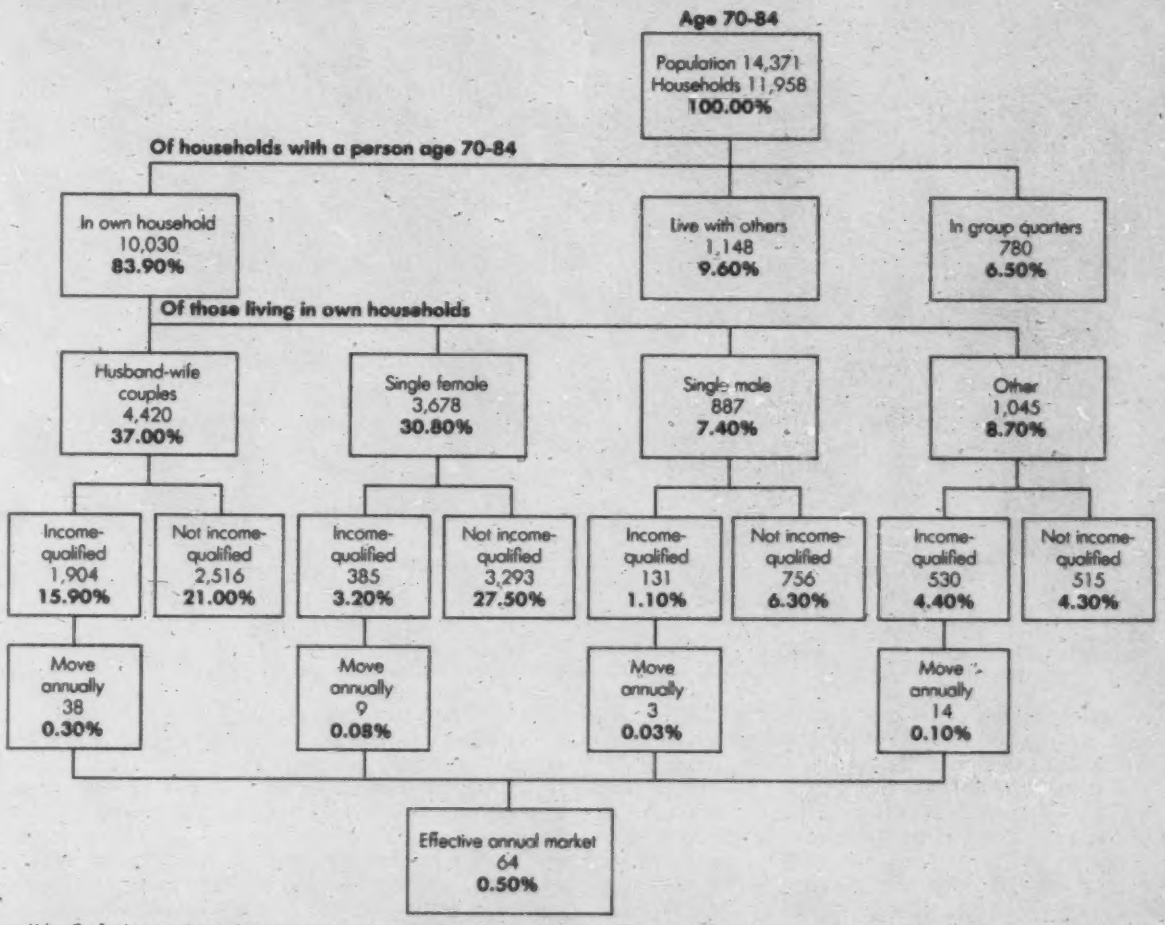
Smolkin believes congregate housing is a good opportunity for builders as long as services stop short of health care. As it is, the daily management of a facility that offers meals, housekeeping, transportation and social programs will be enough to discourage most builders from entering the field.

But home builders have some skills that give them an edge over the not-for-profit developers who have traditionally dominated this market. Builders can deliver the housing itself more efficiently and, therefore, more inexpensively. M. Stroud Curran, manager of Laventhol and Horwath Health Care Division, Philadelphia, believes that if builders can deliver lower-cost congregate housing, the market will expand dramatically. "Until recently, hard costs for these projects were $60 or $70 a square foot, but now we're seeing [building] companies that can put them up for $30 a square foot or less," Curran says.

Pacific Scene Inc., San Diego, is a good example of a home builder that is entering the retiree market. This year the company will open 14 projects in California, Arizona, Texas and New Mexico. Pacific Scene believes its residential expertise will enable it to deliver better-designed, higher-quality housing than many of the nonprofit sponsored and HUD-subsidized projects already on the market. And it will

INCOME-QUALIFIED MOVER MARKET, AGE 70 TO 84

(in thousands)



Source: Hebert/Smalkin Associates Inc., marketing consultants, analyzing data from U.S. Census of 1980

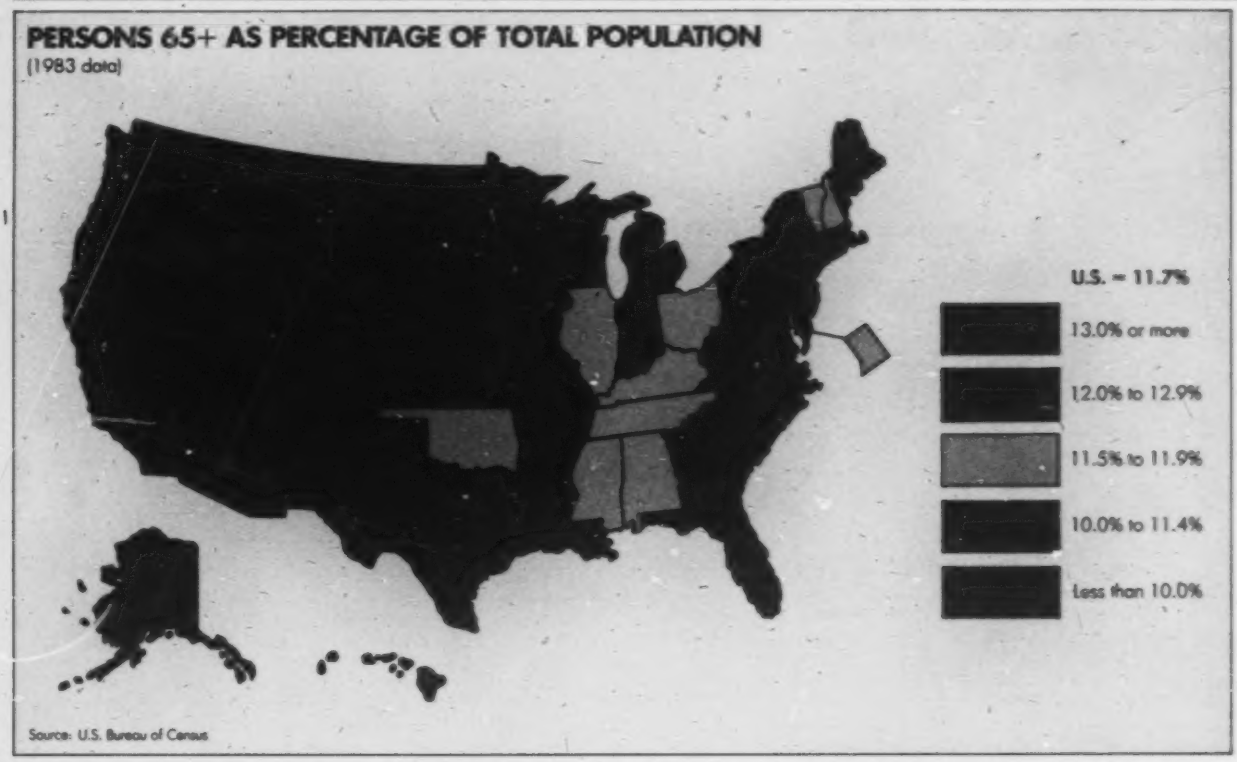
be able to deliver that housing efficiently and on budget, so that it will be within the reach of moderate-income elderly.

"Sheer demographics" convinced Pacific Scene to expand into the retirement market. "We saw a growing market that was not being adequately addressed," says Phil Rush, vice president. But Alan Scott, vice president of development, Wallick Company, Columbus, Ohio, views the numbers with skepticism born of 15 years in the elderly housing market. "Never overestimate the market," he cautions. Location, as usual, is the cornerstone of success.

The best places to build congregate housing are in areas that have significant numbers of elderly residents living in their own homes. Leon Ruderman, partner in T & R Development, a Los Angeles-based builder of congregate facilities, offers this rule of thumb: "Count the number of seniors within a 20-minute drive of a particular site; 3 percent of that number will be your market but build for 1.5 percent to be safe."

The site itself should be within walking distance of shopping and in a good residential neighborhood. Ideal locations, though, can have one big drawback. "Adjacent property owners usually aren't thrilled to have this type of project next-door," says Judith Hamburger, project manager at CEH Partnership, Washington, D.C. Younger people especially object to the scale of these projects and the image an "old folks home" brings to the neighborhood, Hamburger notes.

Pacific Scene, for its part, has encountered little or no resistance to its congregate projects. The key to neighbor-



hood acceptance may be building height. The California developer's projects are only three or four stories high, while CEH must build more densely in order to pencil out.

Congregate housing can be a tough sell to the buyer as well. It's the last move a person is likely to make and is fraught with emotion. "You not only have to sell the concept to the buyer, you have to sell it to his or her trust officer, accountant and kids," says Maria Dwight, president of Gerontological Services Inc., a marketing research firm in Santa Monica, Calif. It can take six to 10 visits to a project before a person decides to move in. Sales people must be especially patient. And, because congregate housing is a new concept, education plays a big part in marketing. Ruderman has a high-powered video presentation he shows to prospective buyers, groups of retirees and civic organizations. Hamburger believes that, at the very least, a builder must have a model unit.

The biggest hurdle for would-be developers of congregate housing, however, may be the day-to-day operation. "Be prepared to be both a hotel operator and a social service agency," says Alan Scott. Food service, housekeeping, janitorial services, transportation services and social activities take congregate housing beyond the scope of normal multifamily rental management. And the management can make or break a project. "When we see a lot of people moving out, we know we have a bad manager," says Ruderman.

He looks for hands-on people to manage T & R's properties. "We want someone who doesn't balk at pitching in when, say, the dishwasher doesn't show up," he says. The manager has to be sympathetic, too, often acting as a counselor and friend to the residents, yet all the while keeping an eye on the bottom line. Many in the field shy away from nursing home administrators who tend to treat residents like patients, creating a deadly institutional atmosphere.

Lease up time for congregate housing can take up to two years for a 120-unit facility. An absorption rate of about four units a month seems to be the norm. But the developer has to deliver services from day one. "You build up a significant operating deficit for the first couple of years," Wallick Company's Scott says. That can turn off lenders, especially because very few of them have financed congregate housing.

Rents for congregate apartments naturally depend on location and on the extent of services offered. Pacific Scene estimates that rents at its 14 projects will range from $950 to $1,400 monthly for a one-bedroom unit to $1,250 to $1,800 for two-bedroom units. Included in that will be two meals a day, weekly maid service, social activities, scheduled transportation and all utilities but the phone.

Congregate housing is undoubtedly a complex business, but life care developments—projects that provide housing,

meals, services and medical care—are even more complex. "Life care is really four businesses in one: housing, social services, nursing home and insurance. The insurance is the most complex," says M. Stroud Curran.

In at least 10 states life care communities are regulated by state government. That's because these communities require buyers to put up large sums of money, called an endowment, in return for the guarantee that they will be taken care of for the rest of their lives. States can require financial disclosure, cash reserves and escrow accounts from life care developers.

There have been enough bankruptcy stories in this field, too, to discourage all but the most intrepid builder. One such story is Fiddler's Wood near Philadelphia, a $33-million project in the wrong location. There weren't enough retired people living in its vicinity, so few units were sold. The project never opened and subsequently was sold for $11 million, Curran reports. In bankruptcy cases, courts have favored the tenants, holding developers to their obligations despite financial straits. "So far no old people have suffered in a bankruptcy case, and that scares lenders," Curran adds.

Life care is obviously not a business for every home builder. But it's become a logical progression for Dunn Wright, an Englewood, Colo., developer of congregate apartments. "Many of our tenants no longer could care for themselves," says partner William Wright. That led the builder to add catered living (daily assistance with dressing, housekeeping and meals) and nursing home care to two of its facilities. But the builder had to hire an experienced health care management company before its lender would give the go-ahead.

The field is attracting some of the country's biggest operators, too. Oxford Development Company, a Bethesda, Md.-based developer of rental housing, sees life care as a logical extension of its businesses.

Oxford plans to have 2,000 units on line this year. The first project will open in Orlando, Fla. It will offer a range of for-rent housing, from patio homes for those who want completely independent living to congregate apartments with catered living services. There will be a nurse on duty 24 hours a day and Oxford will build a nursing home as soon as the state issues a certificate of need.

Residents won't pay an endowment but rents at the Orlando project will start at $1,000 a month for a one-bedroom unit, with one meal a day, weekly maid service, laundry and medical alert system included. Residents will be able to buy more services (for example, two meals a day or extra housekeeping) if they wish. Medical services, personal care services and nursing home care will be on a pay-as-you-go basis.

The developer also is planning more moderately priced communities in which more services will be optional. Oxford plans to apply the expertise it's developed in building and managing 25,000 apartments to providing and managing the shelter aspects of the communities. But it will hire third-party managers for areas such as food service in which it has as yet no expertise.

THE 65+ POPULATION BY STATE

(1983 data)

State	Number (in thousands)	Percent of all ages
Alabama	469	11.9
Alaska	14	3.0
Arizona	356	12.0
Arkansas	329	14.1
California	2,615	10.4
Colorado	270	8.6
Connecticut	398	12.7
Delaware	65	10.8
District of Columbia	74	11.8
Florida	1,867	17.5
Georgia	563	9.8
Hawaii	89	8.7
Idaho	105	10.6
Illinois	1,331	11.6
Indiana	624	11.4
Iowa	404	13.9
Kansas	319	13.2
Kentucky	431	11.6
Louisiana	426	9.6
Maine	149	13.0
Maryland	434	10.1
Massachusetts	763	13.2
Michigan	983	10.8
Minnesota	508	12.3
Mississippi	303	11.7
Missouri	674	13.6
Montana	93	11.4
Nebraska	213	13.3
Nevada	81	9.1
New Hampshire	111	11.6
New Jersey	922	12.3
New Mexico	130	9.3
New York	2,223	12.6
North Carolina	667	11.0
North Dakota	85	12.5
Ohio	1,250	11.6
Oklahoma	393	11.9
Oregon	333	12.5
Pennsylvania	1,639	13.8
Rhode Island	135	14.1
South Carolina	321	9.8
South Dakota	95	13.6
Tennessee	554	11.8
Texas	1,470	9.4
Utah	123	7.6
Vermont	62	11.7
Virginia	554	10.0
Washington	475	11.0
West Virginia	251	12.8
Wisconsin	600	12.6
Wyoming	40	7.9
U.S., total	**27,383**	**11.4**

Source: U.S. Bureau of Census

A TOUCH OF CLUB MED ON THE PACIFIC

There's a place for the retiree who doesn't feel retiring: Leisure Technology's $235-million community in Oceanside, Calif.

With 1,700 units projected, Leisure Village Ocean Hills is Greece on the Pacific, with a touch of Club Med. On the 353-acre grounds there are boccie and shuffleboard courts, a racquet club, golf course, swimming pool and spa. In the 27,000-square-foot clubhouse, there are Nautilus facilities, a television and radio broadcast center, a chamber music studio, and an auditorium seating 900 with a concert hall, stage, ballroom and banquet hall. There are also ceramic and painting studios, photo labs, woodworking and lapidary workshops and a sewing room.

Residents who purchase villas in one of the eight subdivisions modeled after Greek villages may use all the facilities without charge. Designed by Barry Berkus Group Architects in Santa Barbara, Calif., the one and two-bedroom villas range between 970 and 2,025 square feet and cost between $120,000 and $185,000. There's a choice of six floor plans and two elevations. Homeowners' fees average $150 a month.

Residents must be 55 to purchase a villa; the average buyer is 65. Michael Tenzer, president and chief executive officer of Leisure Technology, says the project's opening was the most successful in the company's 27-year history. Within the first three weeks of its May 1984 opening, the first village of 283 units sold out. Sales of the second phase, currently under construction, are strong.

Leisure Technology is the country's largest developer of adult and retirement communities, with revenues for the first three quarters of fiscal 1985 at $64 million. Currently developing 11 other active retirement communities in five states, Leisure Technology recently created a subsidiary, LeisureCare, to joint venture congregate rental communities with different health care providers.

But though Leisure Technology specializes in housing for the elderly, Tenzer cautions builders against blindly leaping into the fray. "The adult and retirement market is capital and labor-intensive," he says.

Builders wishing to enter the retirement market must shift gears mentally, he adds. "Price, financing and commuting distance are key marketing factors in primary housing," he says. "Community security, low maintenance costs, lifestyle and proximity to family, medical services, shopping and cultural activities are the prime requisites for older people."

Photos: Copyright 1984 Robb Miller

HOMEY AND COMFORTABLE SURROUNDINGS

A large active retirement community must be flexible. It must serve the needs of both the robust and the frail members of the community. And it must do so without seeming institutional.

Such considerations shaped the development of Providence Point, a condominium project with 1,106 projected units in Issaquah, Wash. Designed by The Bumgardner Architects in Seattle, the $140-million project has a wide range of amenities for its mostly middle-class clientele. For the active, there are tennis, shuffleboard and boccie courts, a swimming pool, bowling alley, walking trails, arts and crafts rooms, and two restaurants. For the less independent, there's a congregate building where residents may have meals prepared for them. And for those needing nursing care, there's a 120-bed nursing home under construction, surrounded by small apartments for those not needing full-time treatment.

The residents' health needs also governed the design of the two-story condos, which are clustered in five villages. Built on a slope accessed by covered bridges, the units allow direct access to both levels without using an elevator or stairs. The one and two-bedroom condos, ranging in price from $57,000 to $205,000 and in size from 592 to 2,086 square feet, are "handicap ready." "We were careful not to make them handicap units," says Ed Dean, president of Swanson-Dean Corporation of Bellevue, Wash., the project builder and developer. "We didn't put grab bars around the tubs, which is very institutional, but all the backing for the bars is built in if someone needs it later."

Each unit also has an alarm system, connected to a central computer that stores information about a resident's medical history and the names of doctors and family members. While paramedics are dispatched, doctors and relatives are notified immediately.

Since the project opened in May 1984, 104 units have been built and sold, and there's a waiting list of 400 potential buyers. According to Dorla Allred, the project's sales and marketing director, prospects tend to be in their early 60s, and not all of them are retired. "Almost all of our buyers are local," she says. "A lot of them have kids in the greater Seattle area." Radio has been the most effective advertising tool, Allred says, along with on-site seminars, celebrity luncheons and some direct mail.

The 180-acre project was created from the former campus of The Sisters of Providence, a Catholic order that sold the property to the adjacent Lutheran Bible Institute (LBI) in 1979. Though Swanson-Dean now owns the land, the nuns will run the nursing home, and residents will be able to take classes and use facilities at LBI. Other management services will be handled by a local firm, The Jorgensen Company Inc. "Planning the community and fine-tuning everything took about five years," says Allred. "But we think we've created something that really meets the needs of the elderly."

Photo: Courtesy Ross & Sullivan Communications

COMMUNITY OUTREACH

Washington Abbey is a congregate facility for those who don't want a cloistered retirement.

The $4.8-million project on a half-acre tract is in the heart of downtown Eugene, Ore. Developed and built by L.R. Brant and Associates, the project's centerpiece is a remodeled church. Within are office and commercial space, a dining hall, health spa, solarium, woodworking shop and game room. Most of the amenities are open to the public, and visitors are welcome at many of The Abbey's social functions. "We want The Abbey to be a resource to the outside community," says John Rude, the project's marketing director. "And we encourage residents to be involved in community affairs. So many retirement projects are self-contained environments. That's against our philosophy."

In line with that philosophy, The Abbey makes its dining room available to civic groups and hosts "dinner theater" parties where residents can mingle with the public. Regular open-house Sunday brunches often draw more than 100 visitors. "It's a useful marketing tool," says Rude. "Most of the people who come by for a function stay for a tour."

The facilities include 50 units of one bedroom and one bath to two bedrooms and two baths, ranging from 400 to 1,150 square feet. Designed by local architect Merrill Kittinger, they are available on a life-estate or yearly lease basis. The life estate requires an entry fee of $27,000 to $70,000, of which 80 percent is returned eventually to the resident or his estate. Additionally, there's a monthly service fee of $425 to $800. The yearly lease plan requires a $500 security deposit and a monthly rent of $660 to $1,400. A second person can be added to either plan for $160 a month.

There are no on-site health facilities, but each unit has an emergency call system. Should a resident become ill, The Abbey will provide tray service and can arrange for private-duty nursing. When a life-estate resident must enter a nursing home, The Abbey pays the home a per diem supplement.

A nonprofit corporation set up by the owners, Eugene Community Investment Company, manages all services with an in-house staff. Opened in June 1984, the community is about 25 percent full, with most residents coming from the local area. Advertising on television, in local newspapers, and in a monthly newsletter distributed to all visitors targets an upper-middle class retiree in his mid-70s. Reaching this group, Rude says, requires research and creative thinking. "The whole retirement arena is outdated," he maintains. "So much product has a medical model in mind. People reject it. I think retired people want to be more mobile, to expand their possibilities. And they're willing to spend money on themselves, not save it for their estates."

A SECURE, ACCESSIBLE SETTING

A congregate care community need not have a large campus or medical facilities to be successful. Without either, The Atrium in Sacramento was rented in six months.

The 152-unit project sits on a roughly triangular site of 6.24 acres. The 440-to-722-square-foot apartments (studios to two bedrooms with one bath) occupy the perimeter. Inside, in a mall dotted with trees, are the amenities: a patio, spa, barber and beauty salons, poolroom, crafts and recreation room, library, lounge and dining hall. Taylor Development Company of Sacramento, the owner, developer and manager of the property, runs all of the services except the salons.

According to Kathy Staker, operations coordinator for Taylor Development, the enclosed environment (patrolled by security guards) makes residents feel safer. It also provides a focal point for the community, encouraging socializing. Both are important considerations in site plans for the elderly, who tend to withdraw unless they are given secure, accessible settings in which to meet other people.

Although each apartment has its own kitchen, residents receive two meals a day at the central dining hall. The meals are included in the monthly rent of $700 to $1,250.

Designed by Vitiello + Associates Inc. of Sacramento and built by F.B.D. Development Inc. in Fair Oaks, Calif., The Atrium opened in February 1984. With only local advertising, the $6-million project rented rapidly. There's now a waiting list of 45 applicants.

"Our residents range from 62—the minimum age allowable—to the 90s," says Staker. "The average age is 80. Residents come from all over the country. Most of them heard about us from their families around Sacramento."

The Atrium's residents must be healthy and reasonably mobile to remain there. Though each unit has an emergency medical call button connected to the central switchboard, there are no on-site medical facilities. "In an emergency we call the paramedics," says Staker. "But if a person needs nursing care, he has to leave."

Nevertheless, The Atrium flourishes in the face of some stiff competition. One nearby congregate rental project is Crosswind Oaks, which Taylor Development Company built nine years ago.

"We learned a lot from Crosswind Oaks," says Staker. "One thing we learned is, you have to have staff and expertise to make a project successful.

"Still," she adds, "there's money to be made. And it's not out of the scope of anyone who wants to learn to do it."

OFFERING SERVICE WITH A SMILE

CONGREGATE LIVING

In congregate housing, curb appeal takes a back seat to service and security. That's the operating principle of The Gables at Old Farms Forest in Farmington, Conn.

"You have to have a beautiful facade to get people to come here, but you need operating skills to keep them," says Andre La Rochelle, executive director of the 100-unit rental community. "It's one thing to build a facility. It's another to create the proper spirit."

At The Gables, creating the proper spirit means taking away the burden of as many routine chores as possible. Transportation, weekly housekeeping and linen services, 24-hour security and social activities are provided by an in-house staff. Waitresses serve dinner each night in the dining room (each apartment also has a kitchen). The staff is coached on keeping the service attentive, responsive and unhurried. "The people who come here have been dining all over the world," says La Rochelle. "You can't give them a fast-food hamburger."

All this coddling costs $1,090 to $1,675 a month per person (a second person in the same apartment is $300 a month more), plus a $300 administrative fee upon entry. The apartments range from studios to two bedrooms with one bath, and from 500 to 925 square feet. Residents can choose from 17 floor plans, most of which overlook a man-made lake on the 20-acre site.

Childs Bertman Tseckares & Casendino Inc. of Boston designed The Gables, and Devonwood Inc. of Farmington built it. Since its opening last November, it has achieved 90-percent occupancy. Residents must be at least 62; the average age is 81. More than 80 percent of them are from Connecticut or have family in the area. "We've only had to advertise in local newspapers," says La Rochelle. "We slant our ads to service, not bricks and mortar," adds Raymond Dunn III, executive vice president of The Edward Le Roux Group of Woburn, Mass., which co-owns (with two local businessmen) and manages the $4.6-million project.

According to Dunn, The Le Roux Group began as a hospital service company in the late sixties and expanded into housing for the elderly a decade later. Although the company specializes in developing hospitals and medical centers, there are no on-site medical facilities at The Gables. The owners do lease on-site space to private physicians, however, and have equipped each unit with an emergency medical call system. Should their health fail, residents are given priority placement at a local nursing home.

In Dunn's view, the best way to attract the elderly market is to calm their worries about health and mobility while providing the most independent environment possible. Fancy facades and high-tech facilities are just window dressing. "There's no impulse buying among the elderly," Dunn says. "They've seen everything in life and are suspicious of hotshot stuff. Soft sell works best."

Traditional touches, such as a stone fireplace, courtyard balconies and Tudor-inspired trim, add charm.

CAMPUS-LIKE ATMOSPHERE

Because life care appeals to older retirees, convenience is essential. And Duncaster Life Care Center in Bloomfield, Conn., tries to anticipate every need.

"We try to replicate the world at large," says Mark Steiner, president of General Health Management Inc., which manages the project (a subsidiary of the firm, Hartcare Inc., is the developer). The firm is based in Bloomfield.

On 72 acres, the community has a 60-bed nursing facility with all private rooms, and an outpatient clinic. There are also a dining hall, where residents can elect to have one to three meals a day, an auditorium seating 300, a library, an arts and crafts room, a men's club, a woodworking shop, music rooms, a chapel, barber and beauty salons, a working greenhouse and a travel agency. Everything is managed in-house, with the exception of a resident-run general store, an exercise studio run by an outside consultant and a branch office of a local bank.

The 216 units were designed by Stecker La Bau Arneill McManus Architects Inc. and built by General Contracting Company Inc., both of Hartford. The studios to two bedrooms with two baths range from 540 to 1,150 square feet. Residency is by life estate, requiring an entry fee of $50,000 to $116,000 and a monthly fee of $1,000 to $1,600. If a resident leaves within 90 days of occupancy, the full entry fee is refunded; thereafter, the fee is returned on a sliding scale basis. After 44 months, the entry fee is not refunded. Fees include full nursing care.

The project opened in May 1984 and is now 85 percent occupied. Most of the residents come from within 15 miles of the project, says Steiner, and are drawn by newspaper advertising and direct mail. The minimum age for residents is 62; the average age is 75. Despite the stiff fees, Steiner says that most of the residents are not wealthy people. "We're the only game in town that's strictly life care," he says.

The $37-million project is one of six life care projects General Health Management Inc. is helping to develop. The others are in Massachusetts, Florida, Pennsylvania and New Jersey. The eight-year-old management and development firm specializes in nursing homes and elderly housing.

Builders who want to enter the life care market should be warned that their management, financing and construction are different from conventional building, according to Steiner. "There are lots of subtleties," says Steiner. "Plus, more states are beginning to regulate life care. I think all of them will provide regulation within a few years.

"Life care is an enigma," he continues. "Is it real estate, or health care, or both? The key element is to be sure you have the expertise to do it. If you don't, hire or buy a consulting service, or just joint venture."

HIGH-RISE LIVING WITH HEALTH CARE

Park Summit is for those who want hospital facilities in a hotel environment. The Coral Springs, Fla., project sits on 11 acres of landscaped parkland surrounded by palm trees. Outside, there are tennis and shuffleboard courts, an Olympic-size swimming pool with whirlpool and cabanas, and putting greens. Inside, there are 215 apartments ranging from studios to three bedrooms, a central dining room (service includes linen napkins and crystal stemware), a library and an arts room. There's also a 35-bed nursing home, open to residents and nonresidents alike.

Developed and managed by Retirement Services Inc. (RSI) of Boca Raton, the community offers a wide range of support services. Housekeeping, catering, nursing, transportation, recreation and security services are provided by an in-house staff. RSI president Raymond Ronk says it's the service that attracts residents. "Most of our residents come from within 20 miles of here," he says. "They've already made the first move into retirement housing—most of them have been living in oceanfront highrises. We get people ready to make a second move. They're functioning well but don't know how much longer they can function independently."

Ronk says that though residents can join the community at age 65, most seem to enter between ages 72 and 78. The apartments at Park Summit aren't very different from what they've been used to at other luxury highrises: there are 11 floor plans, ranging from 700 to 2,000 square feet, and all have complete kitchens. But there are some reassuring touches, such as grab bars in the tubs and emergency nurse call switches in each bedroom and bath. "Our community is geared to respond to every state of health and independence," says Ronk. "A resident may choose to eat most of his meals in his own kitchen, or all three daily in the dining room, or have them brought to his room on a tray if he isn't feeling very well."

Such care doesn't come cheap. Entry fees range from $70,000 to $210,000, 75 percent of which is returned to the resident if he moves, or to his heirs if he dies. Monthly fees for services (including nursing care) are $600 to $1,620. Nonresidents pay $80 for a semiprivate room or $120 for a private room in the nursing facility.

Designed by Englebrecht and Griffin of Des Moines, and built by Sollitt Construction Company Inc. of South Bend, Ind., the $16.6-million life care center has signed up 44 residents since its November opening. "We use direct mail and on-site seminars, but most of our advertising is local newspapers and magazines," says Ronk. "We also rely a lot on word of mouth."

Park Summit is owned by a nonprofit corporation, Summit Communities of Florida, which employs RSI. "I recommend that any builder interested in life care hire a professional management team," cautions Ronk. "Coordinating all these services is a different animal from what most builders are accustomed to. It takes a long time to acquire the necessary expertise."